BUDGET HEARING

FY 2005 BUDGET REQUEST OF THE OFFICE OF THE CHIEF FINANCIAL OFFICER (OCFO)

Before the

Committee on Finance and Revenue
Council of the District of Columbia

The Honorable Jack Evans, Chairman

April 7, 2004, 9:00 a.m.
Council Chambers

Natwar M. Gandhi
Chief Financial Officer
Government of the District of Columbia

Good morning, Mr. Chairman and members of the Committee. My name is Natwar M. Gandhi, and I am the Chief Financial Officer for the District of Columbia. I am here for your annual budget hearing to testify about the FY 2005 budget request for the Office of the Chief Financial Officer (OCFO).

All my Deputy Chief Financial Officers are with me today to address particular issues or answer questions as needed. They also will testify later on their individual offices. These colleagues are Dan Black, Deputy Chief Financial Officer for the Office of Tax and Revenue (OTR); Julia Friedman, Deputy Chief Financial Officer for the Office of Revenue Analysis (ORA); Anthony Pompa, Deputy Chief Financial Officer for the Office of Financial Operations and Systems (OFOS); Anthony Calhoun, Treasurer and Deputy Chief Financial Officer for the Office of Finance and Treasury (OFT); and Bert Molina, Deputy Chief Financial Officer for the Office of Budget and Planning (OBP). Mr. Molina will be appearing before the Committee of the Whole later this month for their budget hearing on OBP.

In addition, Jeanette Michael, Executive Director of the D.C. Lottery, already has testified and addressed issues relating to the Lottery.

OCFO OVERARCHING GOALS

Since assuming this office, my overwhelming objective has been to preserve and enhance the District's financial viability. Toward this objective, we have made substantial progress, achieving a series of balanced budgets over the past several years and significantly improving our financial infrastructure. The culminating

event on the District financial front was the upgrade we received on our General Obligation bonds from Wall Street rating agencies, lifting our ratings to the "A" category for the first time in nearly 10 years.

As we work to further strengthen our financial viability, we keep five key OCFO goals in mind in formulating our budgets. In all instances, it is our intent to present to this Committee, the Mayor and the Council the minimum OCFO resource request consistent with attaining these goals. In each case, I believe the achievement of these goals is absolutely necessary to maintain and increase the District's financial independence. These are:

Produce Reliable Revenue Estimates. Accurate, timely revenue estimates and fiscal impact statements are crucial to the legislative process and building budgets that are realistic.

Assure Balanced Budgets. Budgets built on quality analysis that include all foreseen costs assure smooth execution of programs approved by the mayor and Council. Online monitoring of expenses helps control costs and spot operations that are off-course. Over the past few years, we have built capacity in this program area and I believe the District now being better served as a result.

Enhance District Revenues. Every year since 1997, the Office of Tax and Revenue has significantly increased revenue collections – both those voluntarily remitted and those collected as a result of enforcement action. In this latter category, revenues have nearly quadrupled from $26 million in FY 1997 to a planned $100 million in FY 2004. At the same time, staffing for OTR is down 14 percent in FY 2004 from its FY 2001 peak (adjusted for program transfers). I will

discuss later in my testimony a proposed budget initiative that will further increase revenue collections.

Safeguard Assets. Throughout the OCFO, we have as a goal the protection of District assets. This requires the maintenance of internal checks and balances, effective internal audits and the maintenance of systems to record and check financial transactions.

Maintain Financial Controls. Our ability to know the status of financial transactions and record them properly is critical to our ability to produce audited financial statements on time and maintain and improve the District's bond rating.

OVERVIEW OF THE OCFO BUDGET REQUEST

The total FY 2005 budget request for the OCFO from all funding sources is 969 FTEs and $108.4 million. This is a net increase of 39 FTEs and $15.2 million, or 4 percent and 14.2 percent respectively, from the revised FY 2004 budget of $93.0 million.[1] Compared to the originally approved FY 2004 budget of $88.8 million, the proposed budget for FY 2005 is 22 percent higher.

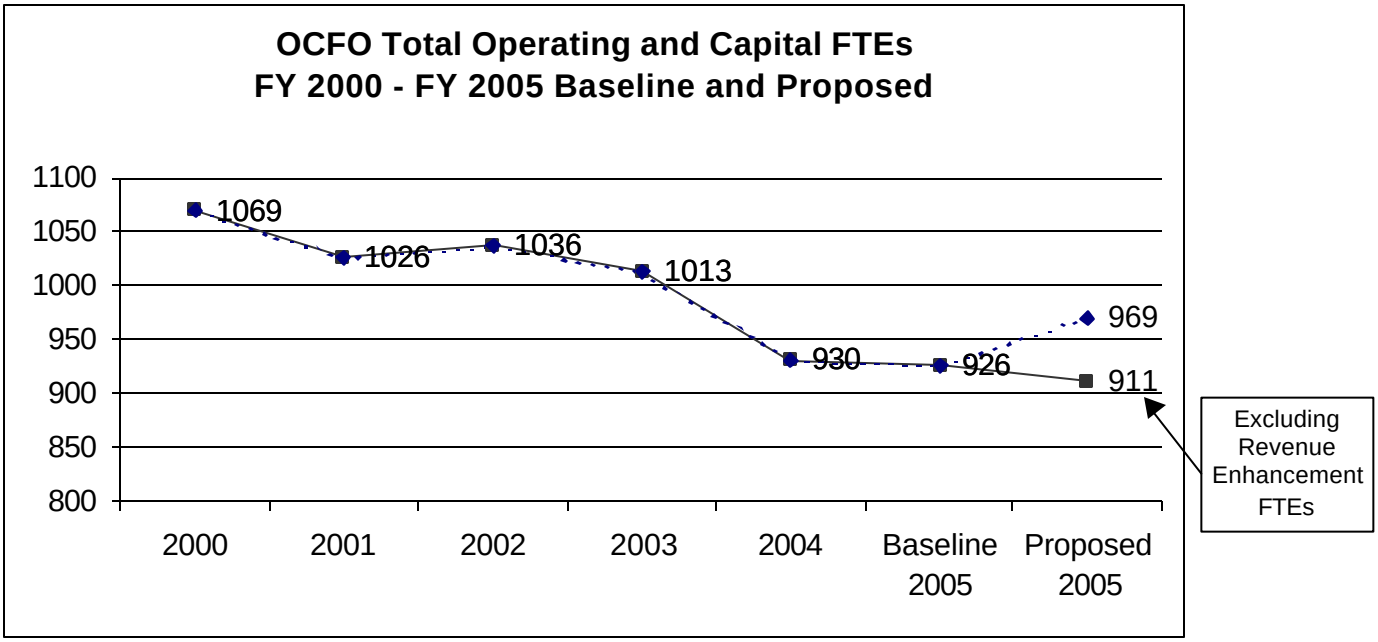
Included in the total request are baseline cuts of $2.1 million and 14 FTEs, as well as a proposed revenue initiative for the Office of Tax and Revenue of $4.4 million and 58 FTEs, which I will discuss later. From local sources, we are requesting 886 FTEs and $75.4 million. In my testimony, I will explain the reasons behind what looks to be, on the surface, a substantial increase.

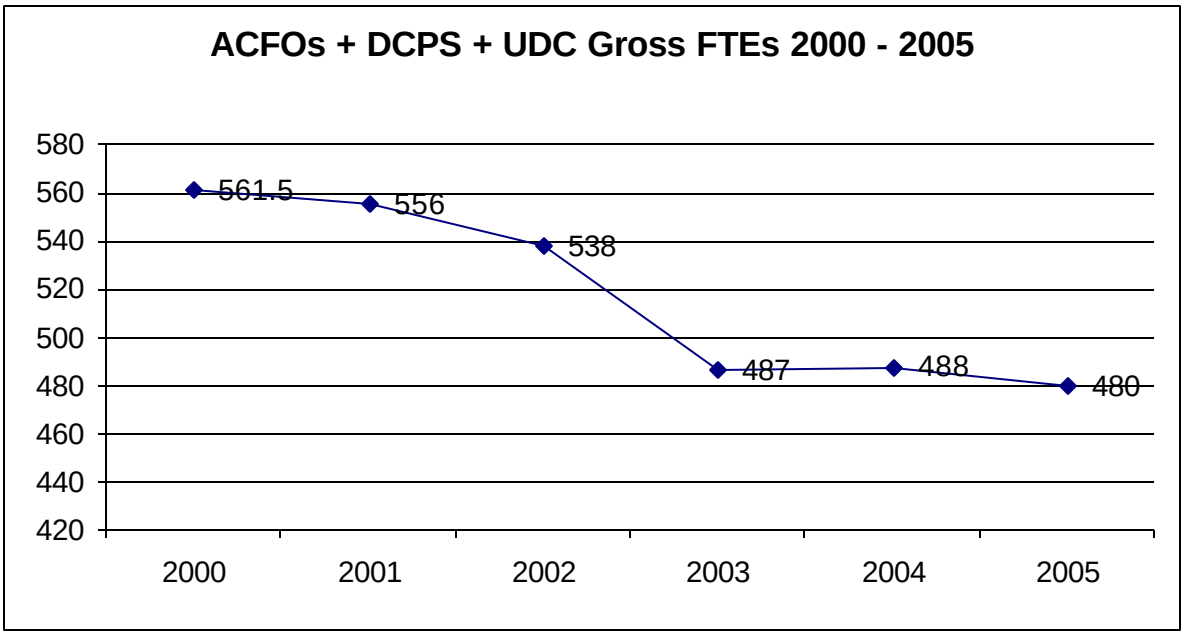
[1] The FY 2004 OCFO Approved Budget of $88.6 million will be increased by $2.6 million for mandated union and non-union pay raises and $1.8 million for costs associated with the Craig lawsuit.

COMPONENTS OF THE FY 2005 BUDGET REQUEST

Our FY 2005 request is consistent with improving current performance levels and is composed of two components: costs associated with baseline financial decisions and budgeting policy affecting all agencies; and costs associated with a proposed revenue producing initiative within the Office of Tax and Revenue. In total, the budget proposes gross increases of $21.85 million over the FY 2004 approved budget. Baseline increases account for $17.4 million of this gross amount. The remaining $4.4 million would support the proposed revenue initiative. Total proposed increases are offset by baseline decreases of $2.2 million, resulting in a net proposed increase of $19.6 million.

Baseline Costs. Let me start by saying that OCFO central staff funded from all revenue sources has decreased by 13 percent between FY 2000 and FY 2004, from 1,069 FTEs to 930 FTEs. Over the same period, agency financial staff has decreased from 562 FTEs to 480 FTEs, a 15 percent decrease. Our strategy has been to build a highly qualified and trained staff that is paid accordingly. This has allowed us to operate with far fewer people and with less outside support. The two charts on the following page show staffing trends for OCFO central and agency financial staff, respectively. In total, the District's staff devoted to financial operations has decreased by 221 FTEs.


OCFO Total Operating and Capital FTEs
FY 2000 - FY 2005 Baseline and Proposed
1100
1050
1000
950
900
850
800
1069
1026
1036
1013
930
926
969
911
2000
2001
2002
2003
2004
Baseline 2005
Proposed 2005
Excluding Revenue Enhancement FTEs


ACFOs + DCPS + UDC Gross FTEs 2000 - 2005
580
560
540
520
500
480
460
440
420
561.5
556
538
487
488
480
2000
2001
2002
2003
2004
2005

The OCFO's baseline staff for FY 2005 is 926 FTEs, four fewer than FY 2004. A net of $15.2 million ($17.4 million in increases offset by $2.2 million in reductions) over the FY 2004 budget is needed to maintain this staff and continue current operations in FY 2005. This seems to be a large amount.

Operating Costs of Capital Projects. However, of this amount $9.4 million is required to fund the continuing operating costs of capital projects coming to closure. As a matter of budgeting policy, the Mayor has taken this step for all agencies, including the OCFO, to assure that on-going operational costs of such projects do not show up as subsequent spending pressures or inadequately maintained systems. For an agency such as the OCFO, which is especially reliant on technology and has had a number of high profile capital projects moving to operational mode, these costs are significant.

Pay Adjustments. Another $5.7 million funds pay increases for existing staff.

Contractual Increases. The remainder, a net of $2.3 million, funds contractual cost increases for electronic banking, space maintenance and other recurring costs.

Program Enhancements. The Mayor's proposed budget recommends a program enhancement for OTR of 58 FTEs and $4.4 million. OTR staff has decreased from a peak of 580 in FY 2001, during the height of implementation of the Integrated Tax System (ITS), to 500 FTEs in FY 2004 – a decrease of nearly 14 percent. This dramatic development (unmatched, I believe, by any other continuing agency of government) was made possible by the investment made in ITS. Now that the system is fully implemented, the District has the opportunity to take advantage of the system's ability to identify high-quality cases for compliance follow-up.

Unfortunately, the system, by itself, cannot collect taxes. That takes staff.

The Mayor is proposing that OTR's audit and collection staff be increased by 58 FTEs and $4.4 million. Two of these positions would be used to administer the Health Provider Tax, if enacted. The remaining 56 FTEs will be dedicated to increasing collections of taxes due but not fully paid with the filing of returns. This compliance staff will more than pay for itself, producing an estimated additional $8.4 million in FY 2005 (of which $4.2 million is included in the FY 2005 revenue estimate). Over the FY 2005 through FY 2008 financial plan period, this additional staff will bring in an additional $64 million in revenues as new employees become fully productive. The revenue estimates in this budget are premised on approval of this initiative. Offsetting this program initiative are OTR reductions in other program areas of 8 FTEs and $800 thousand. If our request is approved as recommended, OTR will have an overall staff of 550 FTEs, 10 fewer than it had in FY 2000.

I have attached to my testimony charts showing 1) the FY 2005 budget as compared to FY 2004, 2) the FY 2005 budget components that contribute to adjustments to the FY 2004 budget and 3) a brief budget summary for each of our budget activities.

Agency Financial Operations

As part of our objective to both improve financial operations and reduce their costs, the OCFO has been restructuring agency financial operations. Because of the history of financial operations in the District, the distribution, structure and job content of financial operations varied widely across agencies. Beginning in FY 2002, we began restructuring and standardizing these operations.

A first step was to create Associate Chief Financial Officers (ACFOs) with responsibility for clusters of agencies. Second, the ACFOs were charged with implementing a "shared services" concept for accounting and accounts payable operations, consolidating under their direct management these operations previously performed throughout agencies. This process is well underway. Third, we are in the process of standardizing the grades and staffing for Agency Chief Financial Officers – now retitled and regraded as Agency Fiscal Officers. The preponderance of these Agency Fiscal Officers will be at the DS-15 level, and all will report to one of the ACFOs. Those responsible for the most complex agencies, such as the Health Department and the Metropolitan Police Department, will be at the DS-16 level.

Also, for the first time under the new Performance-based Budgeting (PBB) system, we have a systemic accounting of financial operations expenses across agencies. Beginning in FY 2005, the OCFO will have sole responsibility for determining funding levels for agency financial operations components, a step that will assist in further standardizing operations and result in lower overall operating costs in subsequent years. In FY 2005, the ACFOs will have 480 FTEs for agency operations. Overall, our restructuring efforts have reduced agency FTEs by 82 or 15 percent since FY 2000. These savings have all reverted to the District for alternative use.

The OCFO Capital Budget

Our capital budget request for FY 2005 totals $5.2 million, for projects that are essential if the OCFO is to accomplish the goals and objectives noted earlier. These projects are exactly the kind of investments that have worked in the past, and can

and will provide productivity savings and effectiveness improvements to the District in the future. I should also note that this is the smallest capital request made by the OCFO during my tenure in the District, and represents the culmination of capital investments made in prior years on improving tax administration, stabilizing the payroll system and implementing effective accounting and budgeting systems.

FY 2005 capital funds are requested for the following projects:

- Real Property System Enhancements – $2.1 million. These funds, approved in FY 2004, will complete the project to fully integrate the Computer Assisted Mass Appraisal System, the Real Property Billing System, and the Integrated Tax System with a Geographic Information System to support the assessment, review and billing of the District's real property tax base.
- Data Warehouse Implementation – $1.6 million. These funds, also approved in FY 2004, will be spent in coordination with the funds for Real Property System Enhancements as well as funds in DCRA to complete the project to implement the "Clean Hands" legislation. Using data from OTR's tax system and other District systems, specified staff will be able to review all debts and obligations owed by an entity to the District.
- Executive Information System (EIS) – $900,000. This database stores and compiles the SOAR financial data that undergirds the user-friendly CFO$ource reporting system. These funds – the only new request for FY 2005 – are needed to build an EIS test region for use when upgrades and trouble-shooting are performed. SOAR and CFO$ource will not suffer down-time on these occasions, and ready access to the data will continue.
- ARGUS: The District's Budget System – $600,000. These funds, approved in FY 2004, support the development and implementation of the District's new

budget and performance management system. ARGUS will vastly simplify the budget formulation and execution processes and allow almost everything to be done instantly and electronically. As a result, we will improve the overall quality of agency budget submissions and have more time for intelligent analysis. In addition, ARGUS also will integrate the District's new performance management measures with the budget process. A scorecard will report the success or failure of the District's programs and activities. Lastly, ARGUS will empower managers to develop and execute their budgets and manage the performance of their programs.

ACCOMPLISHMENTS REFLECT CONTINUING SUPPORT

The continuing leadership provided by the Mayor, by you, Mr. Evans, and the Council has enabled the District to experience a major financial turnaround. The OCFO is committed to doing everything we can to support continued financial improvements in the city in FY 2005 and beyond, and to that end we respectfully ask your support for our FY 2005 budget request.

My colleagues and I are available to answer any questions you and the members may have.

ATTACHMENT:

FY 2004 - 2005 Proposed OCFO Budget Changes Summary
($000s)

		% Change from FY04 Approved
FY 2004 Approved Budget	**88,815**	
Capital to Operating	9,405	11%
Union Pay Raises & Other PS Adj's	5,727	6%
OTR Revenue Enhancements	4,439	5%
Non-local Fund Adjustments	1,207	1%
EBT Contract Increase, Other Adj's	1,047	1%
Gross Increase	*21,825*	
Less: OCFO Share of District-wide Cuts	(2,242)	-3%
Net Increase	*19,583*	
FY 2005 Council Submission	**108,398**	22%

Gross Increase	21,825
Less: Enhancements	(4,439)
Gross Baseline	17,386
Less: Baseline Cuts	(2,242)
Net Baseline Increase	15,144

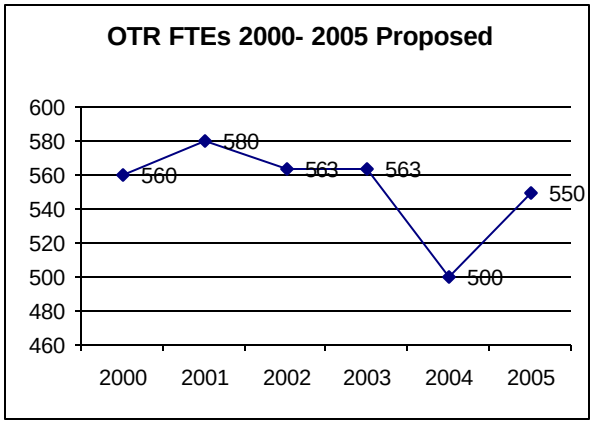
FY 2005 Proposed OCFO Budget

	FY 2005 Budget Proposed ($000's)	FY 2004 Budget ($000's)	Change ($000)	Change %	**FY 2005 FTE Proposed**	FY 2004 FTEs	Change in FTEs	Change %
Local	$89,283	$72,794	$16,489	18.47%	807	811	(4)	-0.50%
Non-local	17,029	16,021	1,008	5.92%	119	119	0	0.00%
Gross FY 2005 baseline (2/17/04) and FY 2004 congressionally approved	106,312	88,815	17,497	16.46%	926	930	(4)	-0.43%
Workforce investment funds due to OCFO		2,559						
State aid funding in OCFO for tax case legal costs		1,800						
Gross FY 2005 baseline (2/17/04) and FY 2004 adjusted	106,312	93,174	13,138	12.36%	926	930	(4)	-0.43%
Changes to Baseline								
Local – OTR (compliance)	4,189				56			
Local – OTR (provider tax)	250				2			
Local – OCFO share of DC-wide cuts	(2,242)				(14)			
Local – Transfer to OAH	(111)				(1)			
Transfer of Budget from IDCR to Local *(IDCR revenues are budgeted centrally)*								
Local	3,391				36			
Non-local	(3,391)				(36)			
Local	94,760	75,353	19,407	20.48%	886	811	75	8.47%
Non-local	13,638	17,821	(4,183)	-30.67%	83	119	(36)	-43.37%
Gross FY 2005 proposed and FY 2004 adjusted	108,398	93,174	15,224	14.04%	969	930	39	4.02%

FY 2005 Proposed OCFO Budget by Function

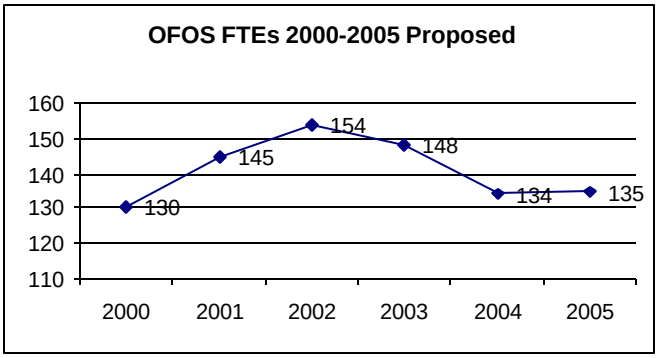
1. Office of Tax and Revenue

		FY 2005 Budget Proposed ($000's)	**FY 2005 FTE Proposed**	FY 2004 Budget ($000's)	FY 2004 FTEs
Baseline (2/17/04)	Local	46,824		39,401	
	Non-local	1,752		1,157	
	Gross	**48,576**	**500**	$40,558	500
Changes	Compliance	4,189	56		
	Provider Tax	250	2		
	Cuts	(677)	(7)		
	OAH	(111)	(1)		
Proposed	Local	50,475		39,401	
	Non-local	1,752		1,157	
	Gross	**52,227**	**550**	40,558	500



2. Office of Financial Operations and Systems

		FY 2005 Budget Proposed ($000's)	**FY 2005 FTE Proposed**	FY 2004 Budget ($000's)	FY 2004 FTEs
Baseline (2/17/04)	Local	9,185		8,333	
	Non-local	3,939		3,516	
	Gross	**13,124**	**135**	11,849	134
Changes	Cuts	(66)			
	IDCR – Local	1,117	13		
	IDCR – Non-local	(1,117)	(13)		
Proposed	Local	10,236		8,333	
	Non-local	2,822		3,516	
	Gross	**13,058**	**135**	11,849	134



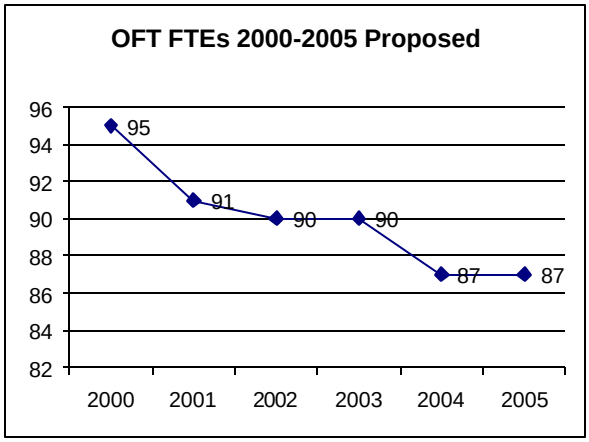
Components:

- Comptroller (71 FTEs in FY 2004, 72 in FY 2005)
  Produces CAFR on time and with clean opinion, with no use of consultants any longer. Cadre of Accounting System Managers form internal resource to address problems.

- Pay and Retirement Services (63 FTEs in FY 2004)
  Smooth operations. New payroll system during FY 2005. Operating cost will change in FY 2006.

3. Office of Finance and Treasury

		FY 2005 Budget Proposed ($000's)	**FY 2005 FTE Proposed**	FY 2004 Budget ($000's)	FY 2004 FTEs
Baseline (2/17/04)	Local	7,985		6,946	
	Non-local	8,482		7,425	
	Gross	**16,467**	**87**	14,371	87
Changes	Cuts	(200)			
	IDCR – Local	174	2		
	IDCR – Non-local	(174)	(2)		
Proposed	Local	7,959		6,946	
	Non-local	8,308		7,425	
	Gross	**16,267**	**87**	14,371	87

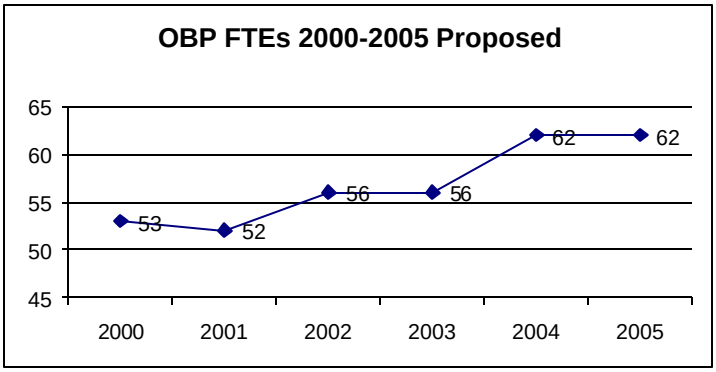


Components:

- Includes 28 cashiers that are deployed throughout the city.

4. Office of Budget and Planning

		FY 2005 Budget Proposed ($000's)	**FY 2005 FTE Proposed**	FY 2004 Budget ($000's)	FY 2004 FTEs
Baseline (2/17/04)	Local	3,887		2,990	
	Non-local	1,810		1,921	
	Gross	**5,697**	**63**	4,911	62
Changes	Cuts	(139)	(1)		
	IDCR – Local	1,508	17		
	IDCR – Non-local	(1,508)	(17)		
Proposed	Local	5,256		2,990	
	Non-local	302		1,921	
	Gross	**5,558**	**62**	4,911	62

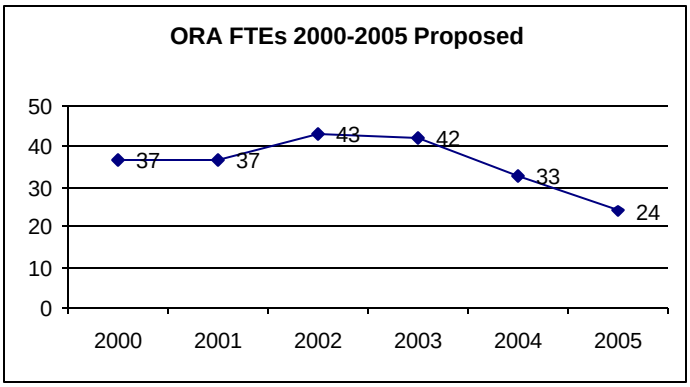


Background:

- Rise in FTEs since 2000 due to new responsibilities, including grants management, financial plan, PBB, and ASMP.

5. Office of Revenue Analysis and Office of Economic Development Finance

		FY 2005 Budget Proposed ($000's)	**FY 2005 FTE Proposed**	FY 2004 Budget ($000's)	FY 2004 FTEs
Baseline (2/17/04)	Local	1,825		1,726	
	Non-local	721		1,508	
	Gross	**2,546**	**24**	3,234	33
Changes	Reallocation	100			
	IDCR – Local	486	3		
	IDCR – Non-local	(486)	(3)		
Proposed	Local	2,411		1,726	
	Non-local	235		1,508	
	Gross	**2,646**	**24**	3,234	33



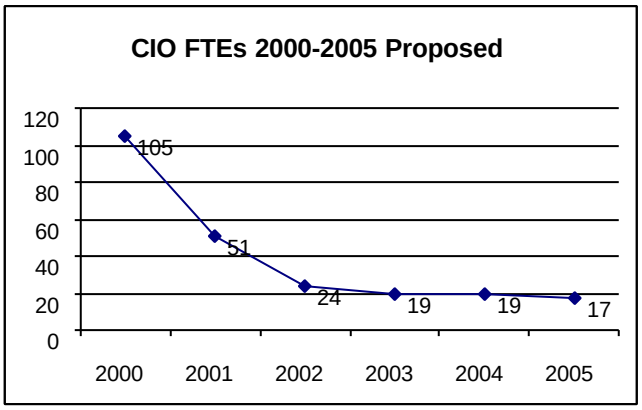
Background:

- Cuts to revenue estimation and fiscal impact statements undermine the basic stability of the governance process by reducing the reliability of estimates and deteriorating the knowledge upon which policy decisions are built.

- Costs from cutting economic development could mount to tens of millions of dollars over several years, depending on how economic development projects are developed and defended elsewhere in the government.

6. Chief Information Officer

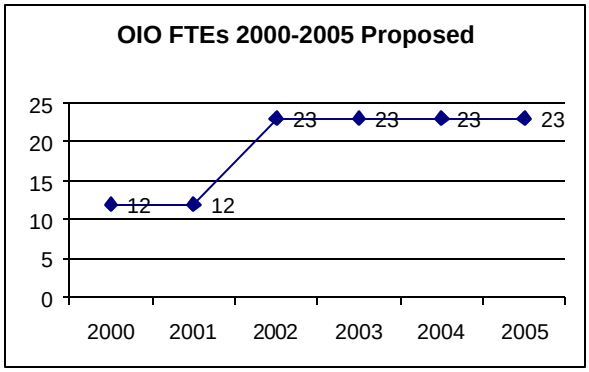
		FY 2005 Budget Proposed ($000's)	FY 2005 FTE Proposed	FY 2004 Budget ($000's)	FY 2004 FTEs
Baseline (2/17/04)	Local	10,568		5,355	18
	Non-local	90		90	1
	Gross	**10,658**	**22**	5,445	19
Changes	Cuts and Reallocation	(1,115)	(5)		
Proposed	Local	9,453		5,355	18
	Non-local	90		90	1
	Gross	**9,543**	**17**	5,445	19



NOTE: FTEs in 2000 and 2001 included SHARE center, which was transferred to OCTO.

7. Office of Integrity and Oversight

		FY 2005 Budget Proposed ($000's)	**FY 2005 FTE Proposed**	FY 2004 Budget ($000's)	FY 2004 FTEs
Baseline (2/17/04)	Local	1,930		1,685	
	Non-local	106		203	
	Gross	**2,036**	**23**	1,888	23
Changes	IDCR – Local	106	1		
	IDCR – Non-local	(106)	(1)		
Proposed	Local	2,036		1,685	
	Non-local	0		203	
	Gross	**2,036**	**23**	1,888	23



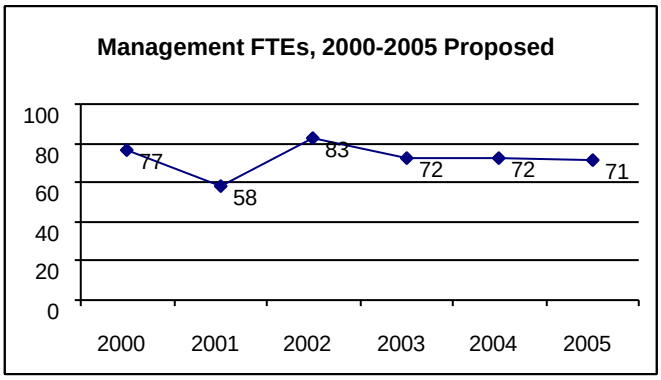
NOTE: FTEs from OFOS were transferred to OIO in FY 2002.

Background:

- This essential internal audit function serves to protect city assets and ensure/enhance controls.

8. OCFO Management

		FY 2005 Budget Proposed ($000's)	FY 2005 FTE Proposed	FY 2004 Budget ($000's)	FY 2004 FTEs
Baseline (2/17/04)	Local	7,080		6,361	
	Non-local	128		0	
	Gross	**7,208**	**72**	6,361	72
Changes	Cuts and Reallocation	(145)	(1)		
Proposed	Local	6,935		6,361	
	Non-local	128		0	
	Gross	**7,063**	**71**	6,361	72



Office	FTEs
Management and Administration (personnel, procurement, and support services)	40 (reduced from FY 2003 level of 55 FTEs through restructuring)
General Counsel	10
Financial Operations	10
Executive Direction	11